

Trends in Overseas Subsidiaries
Quarterly Survey of Overseas Subsidiaries (July-September 2004)

Summary

- Prospects DI for January-March 2005:
 - The sales prospects DI remained positive. Compared to the previous quarter, it showed a slight increase after a significant decrease in the previous term. In North America and ASEAN4, the DI improved due to a steady increase in the transportation equipment area, while in NIES3 and China it continued to decline partly due to IT-related production adjustments.
 - Overall, the equipment investment DI was positive in all regions. However, it worsened in ASEAN4 and NIES3. The employment prospects DI was positive in all regions except Europe and NIES3.
- Results for Japanese overseas subsidiaries for the July-September quarter of 2004:
 - Sales increased by double figures for the fourth consecutive quarter. They were brisk in electrical machinery, transportation equipment, etc. and increased in all regions. In particular, sales in China continued to show a significant rise thanks to steady increases in electrical machinery and other areas.
 - Equipment investment grew substantially in ASEAN4, China and Europe. Employment continued to increase in China, ASEAN4 and Europe.

Results of the current survey:

Note: The survey was conducted in mid-November 2004.

1. The sales prospects DI*¹ was 14.0 percentage points, remaining positive. Compared to the previous quarter, it showed a slight increase of 1.2 points, improving from the very low figures of the previous term. Sales on a dollar basis remained strong, rising 16.7% compared to the same quarter of the previous year, and registering a double-digit increase for the fourth consecutive quarter.

The sales prospects DI was positive in all regions except NIES3*². In NIES3, it continued to decline partly due to IT-related production adjustments. Compared to the previous quarter, the DI improved in North America and Asia due to a steady increase in transportation equipment, while it worsened in Europe. In Asia, it improved thanks to favorable prospects in transport equipment in ASEAN4*³. The DI, however, continued to deteriorate in NIES 3 and China*⁴ due to decreases in electrical machinery, etc.

Actual sales continued to increase in all regions. In particular, sales in Asia showed double-figure increases for the ninth consecutive quarter. China exhibited continued sharp growth due to a rise in electrical machinery. North America and Europe registered a gain due to a steady increase in transportation equipment.

2. The equipment investment prospects DI was 11.1 percentage points, maintaining a positive level. However, compared to the previous quarter, it showed a slight decrease. Actual equipment investment compared to the same period of the previous year registered a 36.7% increase, up for the seventh consecutive quarter.

The equipment investment prospects DI continued to be positive in all regions. It decreased compared to the previous quarter in Asia. In North America and Europe, it rose due to increases in transportation equipment, etc. In Asia, the DI in ASEAN4 fell by 7.5 points from the preceding quarter due to a decline in electrical machinery. In NIES3 it continued to worsen, while in China it improved.

Actual equipment investment figures increased in all regions except NIES3. Asia registered an increase once again,

and ASEAN4, in particular, increased sharply by 46.8% for the third consecutive quarter of significant growth compared to the same period of the previous year, due to a favorable conditions in transportation equipment. China showed a significant rise due to an increase in electrical machinery. Europe also registered significant growth for the second consecutive quarter, while North America increased for the first time in three quarters.

3. The employment prospects DI was 4.7 percentage points, remaining on a positive level. Compared to the previous quarter, however, the DI deteriorated slightly. Actual employment figures increased by 4.1% compared to the same quarter of the previous year, up for the tenth consecutive quarter.

The employment prospects DI continued to be positive in all regions other than Europe and NIES3. Compared to the previous quarter, it worsened in all regions except ASEAN4. North America registered a decrease partly due to a decline in transportation equipment. Europe and Asia also continued to decline. In Asia, NIES3 and China showed a decline due to decreases in transportation equipment, electrical machinery, etc. On the other hand, ASEAN4 showed a modest improvement partly due to a recovery in electrical machinery.

Actual employment numbers rose in all regions except North America. Asia continued to increase, up 6.2% from a year earlier, and Europe also increased for the second consecutive term. In Asia, China continued to increase, up 9.3% from the same quarter a year ago, due to rises in electrical machinery, etc. and ASEAN4 also increased. In contrast, North America continued to decline.

Notes*1: The DI survey period was revised to three months as of this quarter. (The previous single six-month survey period was divided into "current assessment" and "prospects" periods, each of which covered three months.)

- $DI = (\% \text{ of companies expecting an increase}) - (\% \text{ of companies expecting a decrease})$
- Current vs. previous-term current assessment DI comparison = $DI (\text{current assessment})$ for October to December 2004 – $DI (\text{current assessment})$ for July to September 2004
- Current vs. previous-term prospects DI comparison = $DI (\text{prospects})$ for January to March 2005 – $DI (\text{current assessment})$ for October to December 2004

*2: NIES3: Singapore, Taiwan, and the Republic of Korea

*3: ASEAN4: Indonesia, Thailand, the Philippines, and Malaysia

*4: China: including Hong Kong

1. Sales

- The sales prospects DI was 14.0 percentage points, remaining on a positive level. Compared to the previous quarter, it was up 1.2 points, a modest rise after a large fall posted in the previous quarter.

The DI continued to be positive in all regions except NIES3, where it fell further into negative territory partly due to IT-related production adjustments.

Compared to the previous quarter the DI improved slightly after a sharp fall registered in the previous quarter. It improved due to rises in transportation equipment, etc. in North America, and also climbed in Asia. In Europe, however, it worsened. In Asia, the DI improved in ASEAN4 due to an increase in transportation equipment, while NIES3 and China continued to worsen due to decreases in electrical machinery, etc.

- Actual sales on a dollar basis showed double-digit increases for the fourth consecutive quarter, up 16.7% from a year earlier.

Actual sales continued to increase in all regions. Asia increased in double digits for the ninth consecutive quarter. China continued to increase partly due to a rise in electrical machinery. North America and Europe continued to increase due to steady sales in transportation equipment.

Note: With regard to overseas economies, the economy in North America is expanding. In Asia, China, Thailand, Malaysia, Taiwan, and Singapore are showing signs of economic expansion, and the Republic of Korea is showing signs of recovery. The European economy is also showing signs of a moderate recovery. (Excerpt from the December Monthly Economic Report)

- (1) The sales current assessment DI (October to December 2004) was 12.8 percentage points, remaining positive. However, compared to the previous quarter, the current assessment DI registered a large fall of 10.3 points.

The future prospects DI (January to March 2005) was 14.0 percentage points, remaining positive.

Compared to the previous quarter (the current assessment DI for October to December 2004), it showed a slight improvement of 1.2 points (see Table 1, Chart 1 and Chart 2).

- The prospects DI continued to be positive in all regions except NIES3. NIES3 continued to drop due to a decline in electrical machinery caused by IT-related production adjustments, etc.

Compared to the previous quarter, the DI increased by 6.5 points due to rises in transportation equipment and industrial machinery in North America and showed a moderate improvement of 1.8 points in Asia. In Europe, on the other hand, it fell by 7.5 points due to double-digit falls in electrical machinery, transportation equipment, etc. In Asia, ASEAN4 rose by 8.0 points thanks to improvements in transportation equipment, etc. NIES3 dropped by 4.0 points partly due to the influence of deterioration in the electrical machinery area caused by IT-related production adjustments, etc., and China continued to worsen, down 3.3 points.

- (2) Sales calculated on a dollar basis increased by 16.7% compared to the same quarter of the previous year, maintaining a double-digit increase for the fourth consecutive quarter (see Table 1, Chart 1 and Chart 3).

- Actual sales continued to increase in all regions and in Asia, in particular, they increased by double digits for the ninth consecutive quarter. China, especially, continued to grow in 12 out of 13 industries, including electrical machinery, and maintained brisk sales, increasing by 27.4% for the ninth consecutive quarter of double-digit rises. ASEAN4 increased by 18.2% due to increases in transportation equipment (which was particularly strong in Thailand) and electronic machinery, etc. NIES3 continued to rise, climbing 13.1% due to an increase in chemicals, etc. In addition, North America increased by 12.3% partly due to favorable conditions in its core industry, transportation equipment. In Europe, sales rose by 19.9% for the fourth consecutive quarter of double-digit increase, due to rises in electrical machinery, transportation equipment, etc.

Table 1 Sales DI and Actual Results (by Region and Main Industries)

(Unit : DI and DI comparison to same quarter of previous year:percentage point, Result comparison to the previous year:percentage)

Region	Total	North America	Asia	ASEAN4 (see Note 3)	NIES3 (see Note 2)	China (including Hong Kong)	Europe
DI	23.1 12.8 14.0	16.7 10.6 17.1	28.1 12.3 14.1	24.8 6.4 14.4	12.1 -0.4 -4.4	38.2 23.3 20.0	2.9 20.6 13.1
DI comparison to the previous year	(-10.3) 1.2	(-6.1) 6.5	(-15.8) 1.8	(-18.4) 8.0	(-12.5) -4.0	(-14.9) -3.3	(17.7) -7.5
Results(comparison to same quarter of previous year)	16.7	12.3	20.4	18.2	13.1	27.4	19.9

Industry	Transportation equipment	Electrical machinery	Industrial machinery	Chemicals	Iron & Steel
DI	16.6 17.7 22.3	22.1 7.0 3.5	27.8 22.5 20.1	20.3 16.7 21.4	20.6 7.5 20.8
DI comparison to the previous year	(1.1) 4.6	(-15.1) -3.5	(-5.3) -2.4	(-3.6) 4.7	(-13.1) 13.3
Results(comparison to same quarter of previous year)	17.1	15.0	20.3	24.1	29.9

Note: Figures are shown in the order Jul.–Sep. 2004 (current assessment) → Oct.–Dec.2004 (current assessment) → Jan.–Mar.2005 (prospects).

For DI comparison to the previous year, figures in parentheses are comparisons with current assessment DI, while figures not in parentheses are comparisons with prospects DI (see note on page 1).

Chart 1 Sales DI and Actual Sales (Dollar Basis)



Chart 2 Sales DI (By Region)

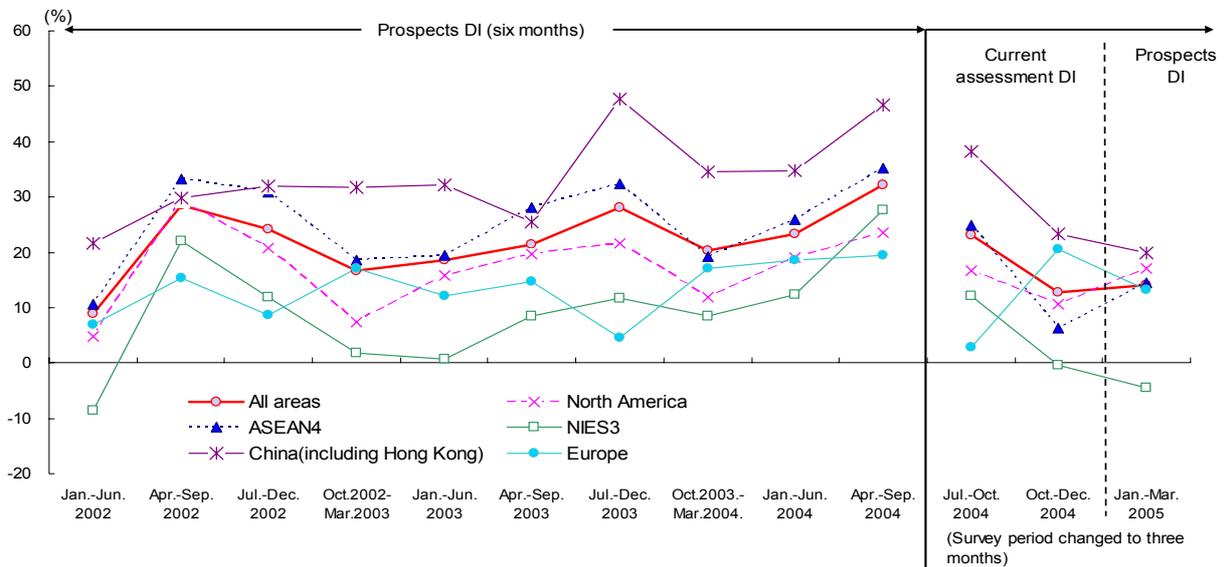
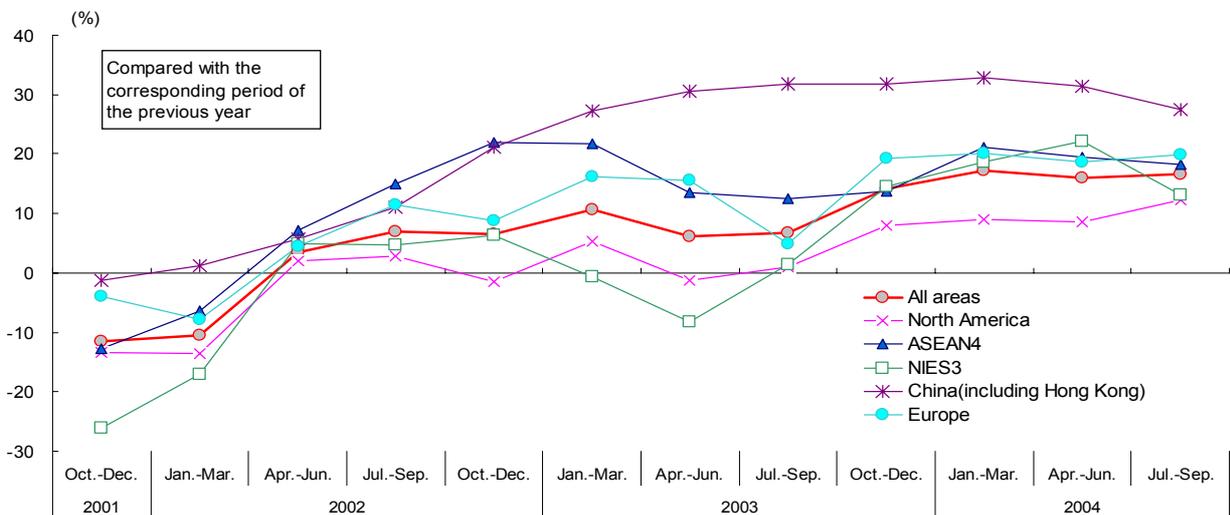


Chart 3 Actual Sales (Dollar Basis) by Region



2. Equipment investment (the amount of acquired tangible fixed assets other than land)

○ The equipment investment prospects DI remained positive at 11.1 percentage points, a slight drop compared to the previous quarter.

The DI remained positive in all regions.

Compared to the previous term, the DI continued to fall in Asia, while it rose in North America and Europe thanks to favorable conditions in transportation equipment, etc. In Asia, ASEAN4 showed a fall of 7.5 points due to decreases in electrical machinery, etc., and NIES3 continued to deteriorate as well. By contrast, China showed an improvement.

○ Actual equipment investment calculated on a dollar basis increased by 36.7% compared to the same quarter of the previous year, up for the seventh consecutive quarter.

Equipment investment increased in all regions except NIES3. Asia continued to grow and ASEAN4, in particular, increased by 46.8% due to favorable conditions in transportation equipment, for the third consecutive quarter of significant growth. China rose sharply due to favorable conditions in electrical machinery. Europe showed a significant increase for the second consecutive quarter, and North America increased for the first time in three quarters.

(1) The equipment investment DI in “current assessment” terms (October to December 2004) was positive at 11.9 percentage points. Compared to the previous quarter, the DI showed a slight decrease, down 0.2 points.

The prospects DI (January to March 2005) also remained positive at 11.1 percentage points. Compared to the previous quarter (current assessment DI for October to December 2004), however, it showed a slight decrease of 0.8 points (see Table 2 and Chart 4).

· The prospects DI remained positive in all regions.

Compared to the previous quarter, the prospects DI continued to decline slightly in Asia, down 2.6 points. North America (up 4.3 points) and Europe (up 0.9 points) continued to increase due to favorable conditions in transportation equipment, etc. In Asia, ASEAN4 worsened in 10 out of 13 industries, including electrical machinery (down 7.5 points), while NIES3 continued to decline (down 2.9 points), due to decreases in electrical machinery, etc. On the other hand, China was expected to improve due to strong investment in transportation equipment, etc.

(2) Actual equipment investment on a dollar basis increased by 36.7% compared to the same quarter of the previous year, up for the seventh consecutive quarter (see Table 2 and Chart 5).

· Actual equipment investment increased in all regions except NIES3, which remained flat. Asia continued to increase, with ASEAN4, in particular, rising by 46.8%, registering sharp growth in the 40 to 60% range for the third consecutive quarter due to an increase in transportation equipment, a core industry (this growth was particularly strong in Thailand). China increased by 62.5%, a sharp rise from a decline registered in the previous quarter, due to a significant growth in electrical machinery. Europe also showed a large increase of 45.6%, up for the second consecutive quarter, and North America increased for the first time in three quarters, up 27.5%, due to a rise in transportation equipment.

Table 2 Equipment Investment DI and Actual Result (by Region and Main Industries)

(Unit : DI and DI comparison to same quarter of previous year:percentage point, Result comparison to the previous year:percentage)

Region	Total			North America		Asia			ASEAN4 (see Note 3)	NIES3 (see Note 2)	China (including Hong Kong)	Europe									
DI	12.1	11.9	11.1	4.8	7.9	12.2	14.8	13.8	11.2	15.9	16.6	9.1	14.5	8.9	6.0	15.5	13.0	16.0	4.9	8.7	9.6
DI comparison to the previous year	(-0.2)	-0.8		(3.1)	4.3		(-1.0)	-2.6		(0.7)	-7.5		(-5.6)	-2.9		(-2.5)	3.0		(3.8)	0.9	
Results(comparison to same quarter of previous year)	36.7			27.5		44.4			46.8	0.0	62.5	45.6									
Industry	Transportation equipment			Electrical machinery			Industrial machinery			Chemicals	Iron & Steel										
DI	11.6	15.8	18.2	13.7	12.5	6.6	13.1	12.6	14.9	13.7	10.0	9.5	11.1	16.3	9.5						
DI comparison to the previous year	(4.2)	2.4		(-1.2)	-5.9		(-0.5)	2.3		(-3.7)	-0.5		(5.2)	-6.8							
Results(comparison to same quarter of previous year)	30.2			76.5			10.0			-1.7	-3.5										

Note: Figures are shown in the order Jul.–Sep. 2004 (current assessment) → Oct.–Dec.2004 (current assessment) → Jan.–Mar.2005 (prospects).

For DI comparison to the previous year, figures in parentheses are comparisons with current assessment DI, while figures not in parentheses are comparisons with prospects DI (see note on page 1).

Chart 4 Equipment Investment DI by Region

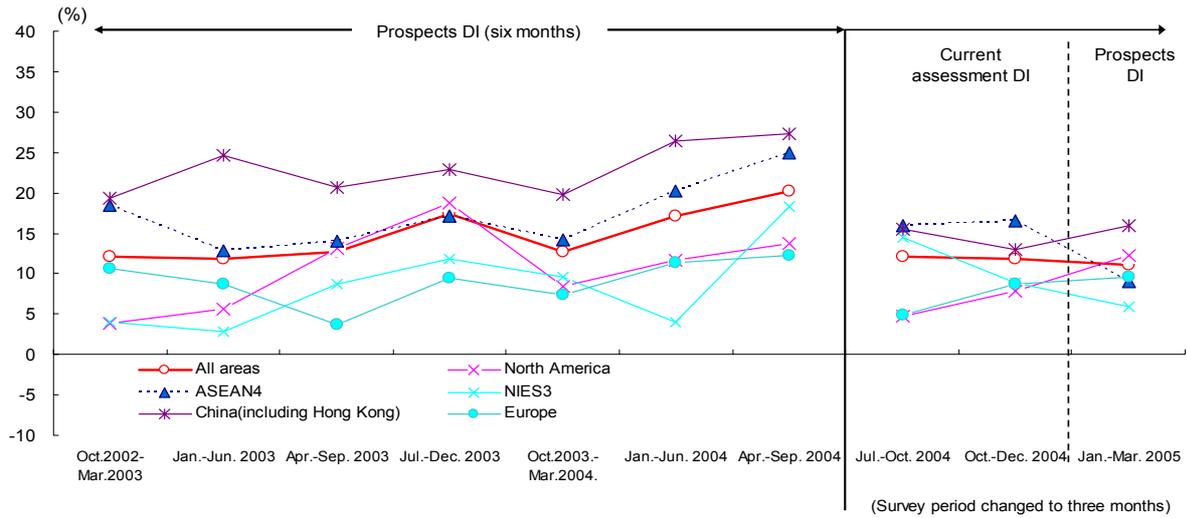
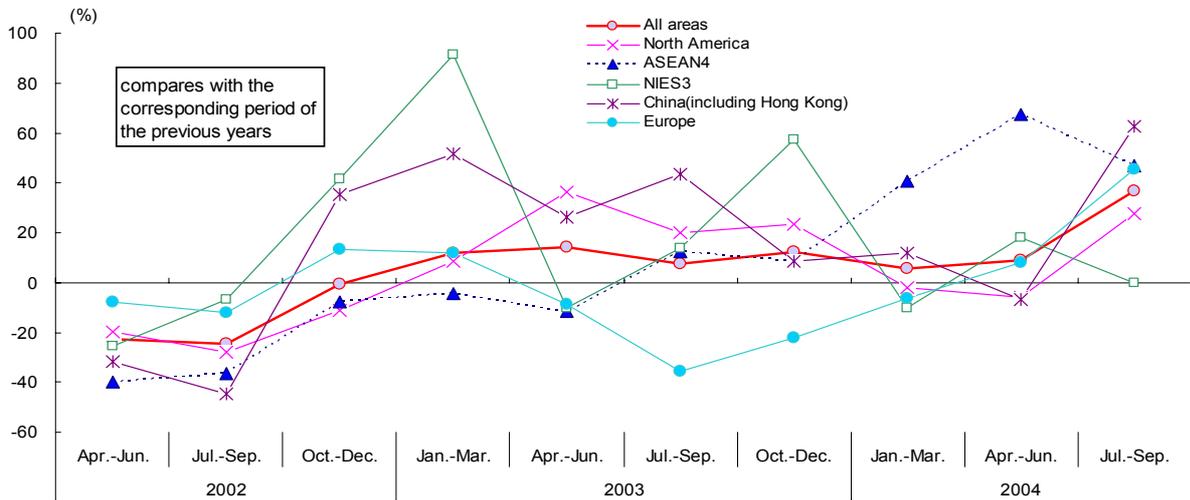


Chart 5 Actual Equipment Investment (Dollar Basis) by Region



3. Employment

- The employment prospects DI remained positive at 4.7 percentage points. Compared to the previous quarter the DI showed a slight decrease of 0.9 points, down for the second quarter in a row.

Overall, the DI remained positive in all regions except Europe and NIES3.

Compared to the previous quarter, the DI decreased in all regions except ASEAN4. It decreased in North America partly due to a decline in transportation equipment, and also continued to worsen in Europe and Asia. In Asia, decreases were observed in NIES3 and China due to drops in transportation equipment, electrical machinery, etc. By contrast, ASEAN4 showed a slight increase partly due to an improvement in electrical machinery.

- The actual number of employees (at the end of the September 2004 period) increased by 4.1% on a year-on-year basis, up for the tenth consecutive quarter.

Employment in all regions except North America increased. Asia continued to grow, up 6.2%. Europe also increased for the second quarter in a row. In Asia, China continued to grow by 9.3% due to rises in electrical machinery, etc., and ASEAN4 also increased. By contrast, North America continued to decline.

- (1) The employment DI in current assessment terms (October to December 2004) stood at 5.6 percentage points, remaining positive. Compared to the previous quarter the DI fell by 2.3 points.

The employment prospects DI (January to March 2005) remained positive at 4.7 percentage points. Compared to the previous quarter (the DI in current assessment terms for October to December 2004), it continued to fall slightly, down 0.9 points (see Table 3).

- The prospects DI remained positive in all regions except Europe and NIES3.

Compared to the previous quarter, the DI fell in all regions except ASEAN4. North America fell by 2.9 points partly due to a drop in transportation equipment. Europe continued to worsen, remaining negative, due to decreases in transportation equipment and electrical machinery. Asia continued to fall, this time by 0.2 points, although remaining on a positive level. NIES3 continued to worsen, this time by 1.7 points, due to decreases in transportation equipment and electrical machinery, etc. China continued to drop, this time by 1.1 points, although the DI level remained high. By contrast, ASEAN4 showed a moderate increase partly due to a rise in electrical machinery.

- (2) Compared to the same quarter of the previous year, the number of employees (as of the end of September 2004) was 2.46 million, an increase of 4.1%, and up for the tenth consecutive quarter (see Table 3).

- Increases were observed in all regions except North America. Asia continued to increase, this time up 6.2%. Europe grew by 5.6% partly due to a large gain in transportation equipment, up for the second consecutive quarter. In Asia, China continued to rise, up 9.3%, with increases in 9 out of 13 industries, including electrical machinery. ASEAN4 continued to increase thanks to rises in transportation equipment, etc. On the other hand, North America continued to decline due to decreases in electrical machinery, etc.

Table 3 Employment Numbers DI and Actual Result (by Region and Main Industries)

(Unit : DI and DI comparison to same quarter of previous year:percentage point, Result comparison to the previous year:percentage)

Region	Total			North America			Asia			ASEAN4 (see Note 3)			NIES3 (see Note 2)			China (including Hong Kong)			Europe		
DI	7.9	5.6	4.7	2.3	5.0	2.1	11.4	7.8	7.6	8.8	4.5	6.4	4.7	-2.4	-4.1	17.2	14.3	13.2	-2.0	-2.6	-3.8
DI comparison to the previous year	(-2.3)	-0.9		(2.7)	-2.9		(-3.6)	-0.2		(-4.3)	1.9		(-7.1)	-1.7		(-2.9)	-1.1		(-0.6)	-1.2	
Results(comparison to same quarter of previous year)	4.1			-4.6			6.2			4.4			0.6			9.3			5.6		

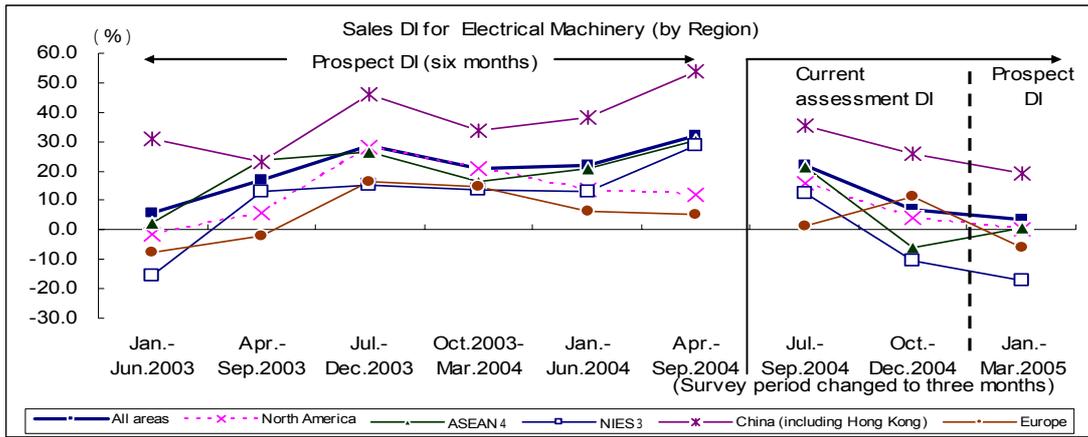
Industry	Transportation equipment			Electrical machinery			Industrial machinery			Chemicals			Iron & Steel		
DI	9.2	8.0	4.1	10.0	3.8	3.9	13.7	6.8	9.8	7.6	5.4	6.2	6.2	13.5	12.0
DI comparison to the previous year	(-1.2)	-3.9		(-6.2)	0.1		(-6.9)	3.0		(-2.2)	0.8		(7.3)	-1.5	
Results(comparison to same quarter of previous year)	8.6			4.7			5.8			-2.2			-17.2		

Note: Figures are shown in the order Jul.–Sep. 2004 (current assessment) → Oct.-Dec.2004 (current assessment) → Jan.-Mar.2005 (prospects).

For DI comparison to the previous year, figures in parentheses are comparisons with current assessment DI, while figures not in parentheses are comparisons with prospects DI (see note on page 1).

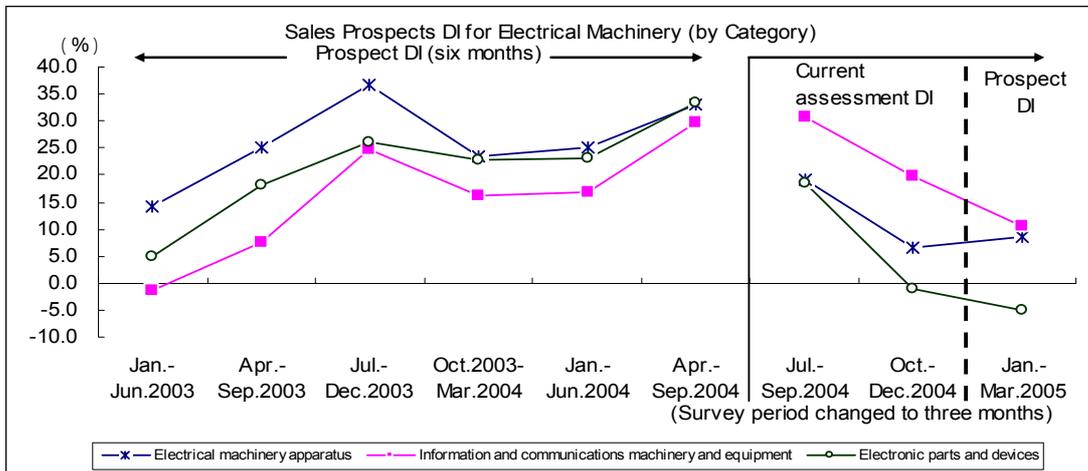
[Topics] The sales prospects DI in electrical machinery decreased by 3.5% points partly due to worldwide IT-related production adjustments for the January-March quarter of 2005.

In particular, NIES3 deteriorated further, remaining in negative territory, and Europe was expected to drop to a negative level.



<<Current assessment DI>> Decreases were observed in electrical machinery and apparatus,; information and telecommunications machinery and equipment, and electronic parts and devices.

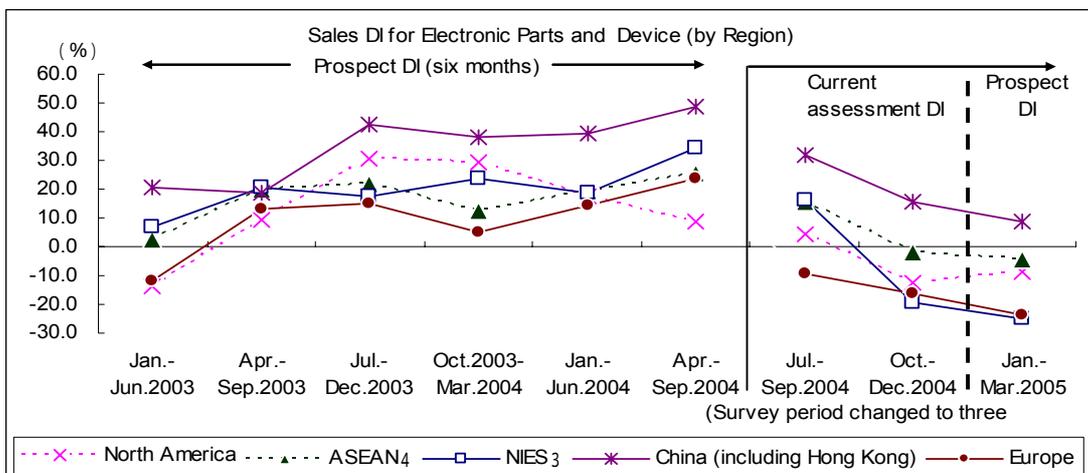
<<Prospects DI>> Electrical machinery and apparatus was expected to increase, while electronic parts and devices was expected to deteriorate further at the negative level.



<Sales DI for electronic parts and devices>

<<Current assessment DI>> While China registered a positive level in double digits, all other regions (countries) fell to a negative level.

<<Prospects DI>> In particular, NIES3 and Europe were expected to fall to the minus 20% point range.



Note: Electrical machinery and apparatus: includes industrial and commercial electrical machinery and apparatuses, electronic application equipment and other electrical machines and apparatuses
 Information and telecommunications machinery and equipment includes TVs, radios, telephone sets, stereos, computers, etc.
 Electronic parts and devices: semiconductors, integrated circuits, capacitors, etc.